

BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF HAWAII

----- In the Matter of -----)
)
PUBLIC UTILITIES COMMISSION) DOCKET NO. 05-0002
)
Instituting a Proceeding to Investigate the)
Issues and Requirements Raised by, and)
Contained in, Hawaii Revised Statutes)
486H, as Amended)
_____)

SHELL OIL COMPANY'S RESPONSE TO SUPPLEMENT 1 TO ICF CONSULTING
RECOMMENDATIONS TO MODIFY HAWAII REVISED STATUTES CHAPTER
486H, GASOLINE PRICE CAP LEGISLATION, FOR THE ETHANOL MANDATE,
HAWAII ADMINISTRATIVE RULES, TITLE 15, CHAPTER 35

AND

CERTIFICATE OF SERVICE

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PUBLIC UTILITIES
COMMISSION

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RECOMMENDATIONS TO MODIFY HAWAII REVISED STATUTES CHAPTER
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I. INTRODUCTION

Shell Oil Company ("Shell"), by and through its attorneys Kobayashi, Sugita & Goda, hereby responds to Supplement 1 to the ICF Consulting Report Regarding Recommendations To Modify Hawaii Revised Statutes Chapter 486h, Gasoline Price Cap Legislation, For The Ethanol Mandate, Hawaii Administrative Rules, Title 15, Chapter 35 ("ICF Ethanol Supplement"). Shell's response herein is without prejudice to and shall not be deemed a waiver of any legal rights or privileges. Further, Shell reserves its right to supplement this response as it was only provided with the ICF Ethanol Supplement on Thursday, April 13, 2006 and the deadline for this response was set for Wednesday, April 19, 2006 (with Friday, April 14, 2006 being a holiday).

II. ETHANOL PROCESS

A. ETHANOL BASE PRICE - OPIS AVERAGE FROM N.Y., CHI. AND L.A.

ICF proposes the use of OPIS ethanol prices in New York, Chicago and Los Angeles on a weekly basis to determine the benchmark for raw Ethanol product.

However, this proposal is not acceptable because Chicago has a completely different supply route from Hawaii. Product cannot be directly exported to Hawaii from Chicago. Product must first be railed to Los Angeles or New York before it can be shipped to Hawaii. Utilizing the Chicago spot figure will unfairly lower the spot ethanol number to a level that is unreasonably below the "export" parity logic that is used for gasoline.

Accordingly, Chicago should be eliminated from the equation, or an additional transportation allowance should be added to increase the Chicago average OPIS price.

B. ETHANOL TRANSPORTATION - LOCATION ADJUSTMENT
FACTOR

ICF proposes a 4 cpg transportation allowance be utilized for Ethanol, the same as gasoline. However, ICF fails to account for the additional cost associated with transporting small cargos of Ethanol.



Additionally, ICF's original gas cap work utilized an "import parity" theory that allowed ICF to claim it could get around the need for Jones Act ships and thereby lower shipping costs. ICF seems to have forgotten this element and simply allowed the 4 cpg to stand. This is inaccurate since the Ethanol markets they quote are US-based and support the need for a higher transportation allowance.

Shell requests an INCREASE from the 4 cpg so that the location adjustment factor realistically covers the additional costs associated with the transportation of ethanol.

C. LOCAL STORAGE & DISTRIBUTION

ICF seemingly ignores the additional capital investment and cost associated with ethanol storage, transportation, and blending. These costs must be accounted for. Shell requests an INCREASE to the cap to cover such costs.


III. HIBOB ISSUE

ICF has offered comments to the commission that explore a variety of views on the cost of making the HIBOB versus the current Conventional product. In the end, ICF recommends no change to the overall formula.

While it seems logical that the HIBOB product may not cost more to make on an incremental basis, ICF has ignored the entire refinery economics in Hawaii. As we know, when 10% of the gasoline pool is made up of Ethanol, the local refineries must either produce 10% less gasoline or export the 10% to another market.



DATED: Honolulu, Hawaii April 19, 2006.


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CERTIFICATE OF SERVICE

The undersigned hereby certifies that a true and correct copy of the above document was duly served upon the following parties in the manner described at their following last known addresses:

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DATED: Honolulu, Hawaii, April 19, 2006.

A handwritten signature in black ink, appearing to read "Clifford K. Higa", written over a horizontal line.

CLIFFORD K. HIGA
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